

Message Text

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PAGE 01 RABAT 02534 290926Z

21

ACTION NEA-10

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FM AMEMBASSY RABAT

TO SECSTATE WASHDC 5511

C O N F I D E N T I A L RABAT 2534

E.O. 11652: GDS

TAGS: EMIN, EINV, MO

SUBJECT: MOROCCO-SOVIET PHOSPHATE TALKS RESUME: TIMING US JUSTICE
DEPARTMENT INQUIRIES INCONVENIENT

REF: A) STATE 119875; B) RABAT 1872 PARA 4B; C) RABAT 1817

1. ARRIVAL VICE CHAIRMAN MORDVINOV, SOVIET STATE COMMITTEE ON ECONOMIC RELATIONS, FOR FURTHER DISCUSSIONS GOM/USSR PHOSPHATE DEAL ANNOUNCED AT SAME TIME AS REF (A) RECEIVED. AS PREVIOUSLY REPORTED, DRAFT GOM/SOVIET AGREEMENT PROVIDES FOR ASSISTANCE IN DEVELOPING AND EXPLOITING MESKALA DEPOSITS IN RETURN FOR LONG-TERM SOVIET ACCESS TO 10 MILLION MT PHOSPHATE ROCK PER YEAR. FINAL AGREEMENT HAS ELUDED NEGOTIATORS THOUGH TALKS HAVE GONE ON FOR MORE THAN A YEAR.

2. THOUGH FEW DETAILS PUBLIC, WE BELIEVE MAJOR UNRESOLVED ISSUE IS GOM INSISTENCE THAT SOVIETS NOT RESELL MOROCCAN PHOSPHATES TO THIRD COUNTRIES OR USE IMPORTS TO PERMIT INCREASED EXPORTS SOVIET PHOSPHATES. ISTIQLAL CIRCLES HINT THERE MAY ALSO BE PRICING AND LENGTH-OF-AGREEMENT PROBLEMS (LATTER POINT RELATED MOROCCAN INSISTENCE THAT IF PRODUCTION FALLS BELOW STIPULATED AMOUNTS, AGREEMENT WOULD BE AUTOMATICALLY EXTENDED FOR PERIOD SUFFICIENT TO RESULT IN EVENTUAL EXPORT AGREED TOTAL TONNAGE).

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PAGE 02 RABAT 02534 290926Z

3. OPPOSITION PRESS ASKING WHETHER MORDVINOV ARRIVAL SIGNIFIES THAT COMPROMISE HAS BEEN WORKED OUT. WE DO NOT KNOW, BUT WOULD NOT BE SURPRISED AT ANNOUNCEMENT OF ACCORD WITHIN NEXT WEEK OR SO. RECENT REDUCTION PRODUCTION TARGETS AND PRICE SOFTENING WILL MAKE IT EASIER FOR SOVIETS TO EXTRACT BETTER DEAL AND MAKE GOM MORE AMENABLE TO COMPROMISE ON AUTOMATICITY OF CONTRACT EXTENSION. WHILE THERE IS KNOWN OPPOSITION TO ACCORD ON PART OCP TECHNICAL LEVEL PERSONNEL, WHO BECAUSE OF WESTERN EDUCATION ARE DUBIOUS ABOUT SOVIETS AND THEIR TECHNOLOGY, IF SOVIETS PREPARED TO INCLUDE REASONABLE AMOUNT OF "UP-FRONT" FINANCING TO CONCLUDE TRANSACTION, CURRENT GOM CASH FLOW PROBLEMS RESULTING FROM HEAVY GRAIN IMPORTS AND PHOSPHATE PRICE LOSSES SHOULD OVERCOME REMAINING RESISTANCE.

4. EMBASSY FULLY UNDERSTANDS JUSTICE DEPARTMENT CONCERNS REGARDING POSSIBLE COLLUSIVE PRICING AND OBLIGATION TO MAKE INQUIRIES. BUT AT MOMENT WHEN SOVIETS COMPLETING ARRANGEMENTS FOR FAR-SIGHTED AND MUTUALLY BENEFICIAL ACCESS TO MAJOR SHARE OF MOROCCO'S PHOSPHATES, TIMING OF US INVESTIGATION IS LIKELY TO BE COUNTERPRODUCTIVE. IF ESTIMATES BY SEVERAL LEADING US EXPERTS CORRECT, WE OURSELVES MAY BE DEPENDENT ON MOROCCAN PHOSPHATES AND GOOD WILL WITHIN DECADE.

5. MOROCCO ALREADY LARGEST PHOSPHATE EXPORTER IN WORLD CONTROLLING ESTIMATED 60 PERCENT NON-US, NON-SOVIET RESERVES. IF CAMPAIGN TO ACHIEVE CONTROL OVER SAHARA SUCCEEDS, MOROCCO WILL CONTROL 80 PERCENT OF NON-US, NON-SOVIET RESERVES. THUS, WHILE QUESTION PRICE COLLUSION CANNOT BE EXCLUDED EX ANTE, MARKET POWER ALREADY EXERCISED BY OCP (MOROCCAN PHOSPHATE MONOPOLY) PERMITS PRICE DOMINATION REQUIRING NO ACTIVE COLLUSION OTHERS (SEE LAMRANI STATEMENT REF (B)).

6. PRIORITY OBJECTIVES OF US, AT TIME WHEN SOVIETS EDGING TOWARDS RELATIONSHIP WHICH CAN SATISFY SOVIET NEED FOR ACCESS TO CRITICAL RAW MATERIAL, IS TO INTEREST US FIRMS IN PARALLELED JOINT-VENTURES IN PROCESSING/MARKETING
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PAGE 03 RABAT 02534 290926Z

OPERATIONS IN MOROCCO. US ALREADY BENEFITTING FROM OCP EXPANSION PROJECTS IN FORM CAPITAL EQUIPMENT SALES AND CONSULTATION CONTRACTS. EMBASSY THUS HOPES JUSTICE DEPARTMENT INQUIRIES CAN BE CARRIED OUT IN MANNER TO AVOID (A) DRIVING WEDGES BETWEEN US PHOSPHATE INDUSTRY AND GOM, (B) APPEARANCE OF SLAPPING GOM ON WRIST AT TIME SOVIETS REWARDING THEM WITH LONG-TERM PURCHASE CONTRACT, (C) GIVING OFFENSE TO LAMRANI WHOSE ATTITUDE

TOWARDS US WILL BE OF CONTINUING IMPORTANCE WHETHER AS
DIRECTOR OCP OR IN OTHER HIGH LEVEL POSITION, AND (D)
ALIENATING WESTERN-ORIENTED OCP CADRES WHOSE GOODWILL
WILL BE ESSENTIAL IN COMING PERIOD OF ANTICIPATED US
PHOSPHATE SHORTAGE.
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